

ORIGINAL

OPEN MEETING



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MEMORANDUM

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Arizona Corporation Commission

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TO: THE COMMISSION

FROM: Utilities Division

NOV 24 2015

AZ CORP COMMISSION
DOCKET CONTROL

DATE: November 24, 2015

DOCKETED BY

BTU

RE: IN THE MATTER OF THE APPLICATION OF QWEST CORPORATION DBA CENTURYLINK QC FOR APPROVAL OF A CHANGE TO THE FUNDING MECHANISM FOR THE CENTURYLINK MEDICALLY NEEDY TELEPHONE ASSISTANCE PROGRAM. (DOCKET NO. T-01051B-15-0383)

On March 23, 2006, the Arizona Corporation Commission ("Commission" or "ACC") issued Decision No. 68604. In Decision No. 68604, the Commission among other things increased the funding for the Telephone Assistance Plan for the Medically Needy ("TAP"), which was established by the Commission in Decision No. 57462 (July 15, 1991), from a total of \$1.0 Million annually to \$2.0 Million annually, exclusive of any federal funding received. The TAP allows low income customers demonstrating a special medical need to obtain home phone service from CenturyLink at little or no charge. The decision also requires that a separate funding of \$100,000 annually be deducted from the \$2.0 Million fund to offset the reasonable administrative costs incurred by community agencies in enrolling qualified applicants in the TAP program. The decision requires the Arizona Department of Economic Security ("DES"), to determine and invoice Qwest Corporation dba CenturyLink QC ("CenturyLink" or "Company") for each community agency's pro-rata share of the \$100,000 annual funding. The decision further requires that unused TAP funds in any given year remain in the account for use in subsequent years. TAP expenditures are capped at the \$2.0 Million annual funding level unless the account has a surplus from prior years. In the event the account has a surplus from prior years and there are additional qualified applicants, TAP expenditures may exceed the annual funding level.

On November 9, 2015, CenturyLink filed an Application for a tariff revision to change the funding mechanism for TAP. On November 10, 2015, the Company filed an amended Application, substituting the tariff page included with the November 9, 2015 filing. In the Amended Application, CenturyLink specifically seeks Commissions approval to eliminate the \$2.0 Million annual funding requirement and to allow the Company to reverse the balance of unused TAP funds on the Company's books. According to CenturyLink, the tariff filing would permit the Company to fund the program, including both credits for eligible TAP (new and existing) customers as well as the costs for DES to administer the program (for as long as DES continues as the administrator), as an in-year current operating expense, with no duty to set aside or maintain an accrual or dedicated fund.

At the peak of the TAP in 2002, there were over 10,000 customers enrolled in the program. Since then, the number has declined. At the end of 2014, less than 3,000 customers participated in TAP. The Company attributes the decline in customer participation to availability of alternative means of communicating such as wireless. According to CenturyLink, approximately 71 percent of

THE COMMISSION

November 24, 2015

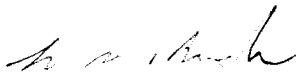
Page 2

the voice connection in Arizona are served by wireless providers and over 41 percent of Arizona individuals 18 and older lived in households that are wireless only. In 2014 program expenses (customer credits and DES administrative costs) were only \$851,000.

Pursuant to Decision No. 68604, the unused TAP funds in any given year remain in the account for use in subsequent years. At the end of 2014 the unused balance carried over by CenturyLink was \$7.6 Million. Because the number of customers participating in TAP are decreasing every year, the unused balance is currently over \$8.0 Million and it is increasing at the rate of \$1.0 Million per year. The unused TAP funds carry over balance represents a liability on the Company's books and exists as an accounting entry only. There are no actual funds set aside in connection with the TAP program. The existence of the \$8.0 Million liability on the Company accounting books is a great concern to the Company. As such, the Company filed the instant Application to address the issue through the changes requested in this tariff filing. The change to its tariff will permit the Company to fund the program as an in-year operating expense. The requested changes will have no impact on the availability of funds for the program. The Company will continue to provide TAP credits to both new and existing customers who are determined by DES to be eligible. In addition, in return for relief from the requirement to accrue \$2.0 million per year in order to fund the TAP and associated administrative costs, CenturyLink is willing to agree that funding would no longer be capped at \$2.0 million per year and that future expenditures could exceed this amount.

Because this funding requirement was part of a Settlement Agreement approved in Decision No. 68604, CenturyLink has given notice to all parties on the service list for Docket No. T-01051B-03-0454 et.al. of its tariff filing. CenturyLink has also agreed to notify all parties on the service list of the Open Meeting when this matter will be considered.

Based on its analysis, Staff concludes that CenturyLink's requests, for approval to eliminate the \$2.0 Million annual funding requirement and to allow the Company to reverse the balance of unused TAP funds on the Company's books, are reasonable. Therefore, Staff recommends that the Commission issue an Order approving the proposed tariff revision effective January 1, 2016.



Tom M. Broderick
Director
Utilities Division

TMB:BNC:nr\MAS

Originator: Blessing Chukwu

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 SUSAN BITTER SMITH

Chairman

3 BOB STUMP

Commissioner

4 BOB BURNS

Commissioner

5 DOUG LITTLE

Commissioner

6 TOM FORESE

Commissioner

7
8 IN THE MATTER OF THE APPLICATION)
OF QWEST CORPORATION DBA)
9 CENTURYLINK QC FOR APPROVAL OF A)
CHANGE TO THE FUNDING)
10 MECHANISM FOR THE CENTURYLINK)
MEDICALLY NEEDY TELEPHONE)
11 ASSISTANCE PROGRAM.)
12

DOCKET NO.T-01051B-15-0383

DECISION NO. _____

ORDER

13 Open Meeting
December 8 and 9, 2015
14 Phoenix, Arizona

15 BY THE COMMISSION:

16 **FINDINGS OF FACT**

17 **A. Introduction**

18 1. On November 9, 2015, Qwest Corporation dba CenturyLink QC ("CenturyLink")
19 filed an Application for tariff revision to change the funding mechanism for the Telephone Assistance
20 Plan for the Medically Needy ("TAP"). On November 10, 2015, the Company filed an amended
21 Application, substituting the tariff page included with the November 9, 2015 filing. In the Amended
22 Application, CenturyLink specifically seeks Commissions approval to eliminate the \$2.0 Million annual
23 funding requirement and to allow the Company to reverse the balance of unused TAP funds on the
24 Company's books.

25 2. Staff recommends approval of the proposed tariff revision effective January 1, 2016.

26 **B. Background**

27 3. Commission Decision No. 68604 (March 23, 2006) approved a Settlement Agreement
28 between CenturyLink, the Commission's Utilities Division Staff, the Department of Defense and All

1 Other Federal Executive Agencies ("DOD"), MCI, Inc., Time Warner Telecom of Arizona, LLC
2 ("Time Warner"), Cox Arizona Telcom, L.L.C. ("Cox"), the Arizona Utility Investors Association
3 ("AUIA"), and XO Communications Services, Inc. ("XO") with regard to CenturyLink's application
4 for approval of Renewed Price Regulation Plan.¹

5 4. The Settlement Agreement approved in Decision No. 68604 provided for an increase
6 in funding for the TAP. The TAP allows low income customers demonstrating a special medical need
7 to obtain home phone service from CenturyLink at little or no charge. In Paragraph 13(c) of the
8 Settlement Agreement, CenturyLink agreed to increase its funding of that program to \$2.0 Million
9 annually, exclusive of any federal funding received. In addition, the Agreement provided for an
10 annual set-aside of \$100,000 of the \$2.0 Million to cover the reasonable administrative costs incurred
11 by community agencies that assist Department of Economic Security ("DES") in enrolling qualified
12 applicants in the TAP.

13 5. Paragraph 13(c) went on to provide that on a quarterly basis, DES shall determine, and
14 invoice Qwest for, each community agency's pro-rata share of the \$100,000 annual funding based
15 upon the number of TAP applications each agency has processed in the quarter. CenturyLink shall
16 consult with the DES and submit a plan to the Commission which determines how each community
17 agency's pro-rata share is to be determined. Unused TAP funds in any given year remain in the
18 account for use in subsequent years. TAP expenditures are capped at the \$2.0 Million annual funding
19 level unless the account has a surplus from prior years. Finally, the Settlement Agreement provided
20 "In the event the account has a surplus from prior years and there are additional qualified applicants,
21 TAP expenditures may exceed the annual funding level."

22 6. CenturyLink partnered with DES and the Arizona Community Action Agencies
23 ("CAAs") to administer the TAP program. DES provides both administrative and direct services by
24 conducting training, customer-service, data-entry, and outreach activities. CAAs provide case
25 management services to low-income customers and coordinate application intake systems, conduct
26 client interviews and determine client eligibility. Decision No. 68604 provided for the set-aside to be

27
28 ¹ *In the Matter of Qwest Corporation's Filing of Renewed Price Regulation Plan et al*, Docket No. T-01051B-03-0454 et al. Docket No. T-00000D-03-0454 et al.

distributed to CAAs to offset administrative costs incurred while completing these administrative tasks in conjunction with processing TAP applications.

C. Qwest's Application

8. CenturyLink states in its Application that the tariff filing would permit the Company to fund the program, including both credits for eligible TAP (new and existing) customers as well as the costs for DES to administer the program (for as long as DES continues as the administrator), as an in-year current operating expense, with no duty to set aside or maintain an accrual or dedicated fund.

9. At the peak of the TAP in 2002, there were over 10,000 customers enrolled in the program. Since then, the number has declined. At the end of 2014, less than 3,000 customers participated in TAP. The Company attributes the decline in customer participation to availability of alternative means of communicating such as wireless. CenturyLink states that approximately 71 percent of the voice connections in Arizona are served by wireless providers and over 41 percent of Arizona individuals 18 and older lived in households that are wireless only. In 2014 program expenses (customer credits and DES administrative costs) were only \$851,000.

10. CenturyLink states that the existing requirement in the Settlement Agreement approved by Decision No. 68604 for the unused TAP funds in any given year to remain in the account for use in subsequent years is of concern to the Company because the unused TAP funds carry over balance represents a liability on the Company's books. At the end of 2014 the unused balance carried over by CenturyLink was \$7.6 Million. Because the number of customers participating in TAP are decreasing every year, the unused balance is currently over \$8.0 Million and it is increasing at the rate of \$1.0 Million per year. CenturyLink states that the unused TAP funds carry over balance exists as an accounting entry only and that there are no actual funds set aside in connection with the TAP program. As such, the Company filed the instant Application to address the issue through the changes requested in this tariff filing.

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1 **D. Staff Analysis and Recommendations**

2 11. The unused TAP funds set aside carry over balance represents a liability on the
3 Company's books, which the Company represents continues to grow by approximately \$1 million a
4 year.

5 12. Staff notes that CenturyLink in its Application stated that the fund exists as an
6 accounting entry only and that there are no actual funds set aside in connection with the TAP
7 program. The change to its tariff will permit the Company to fund the program as an in-year
8 operating expense.

9 13. The Company states that it will continue to provide TAP credits to both new and
10 existing customers who are determined by DES to be eligible.

11 14. In addition, in return for relief from the requirement to accrue \$2.0 million per year in
12 order to fund the Medically Needy Program and associated administrative costs, CenturyLink is willing
13 to agree that funding would no longer be capped at \$2.0 million per year and that future expenditures
14 could exceed this amount.

15 15. Because this funding requirement was part of a Settlement Agreement approved in
16 Decision No. 68604, CenturyLink has given notice to all parties on the service list for Docket No. T-
17 01051B-03-0454 et. al. of its tariff filing. CenturyLink has also agreed to notify parties of the Open
18 Meeting when this matter will be considered.

19 16. Staff recommends that the Commission grant CenturyLink's Amended Application for
20 a tariff revision to eliminate the \$2.0 Million annual set aside funding requirement for TAP and to
21 allow the Company to reverse the negative liability consisting of the unused TAP set aside on the
22 Company's books. Staff is recommending approval at this time based upon its understanding that the
23 requested changes will have no impact on the availability of funds for the program.

24 **CONCLUSIONS OF LAW**

25 1. CenturyLink is an Arizona public service corporation within the meaning of Article
26 XV, Section 2, of the Arizona Constitution.

27 2. The Commission has jurisdiction over CenturyLink and the subject matter of this
28 proceeding.

1 3. Notice of CenturyLink's Application and the Commission Open Meeting was
2 provided in the manner prescribed by law.

3 4. The tariff revision discussed above relating to Decision No. 68604 and the Settlement
4 Agreement approved therein, is just and reasonable and in the public interest and should be approved.

5 ORDER

6 IT IS THEREFORE ORDERED that CenturyLink's proposed tariff revisions to change the
7 accounting methodology for the Telephone Assistance Plan for the Medically Needy by eliminating
8 the \$2 million annual set-aside requirement and instead allow the Company to fund the program as an
9 in-year operating expense, be and hereby are approved effective January 1, 2016.

10 IT IS FURTHER ORDERED that CenturyLink's request to reverse the accounting liability
11 consisting of the set-aside balance of unused TAP funds on the Company's books is also hereby
12 approved.

13 IT IS FURTHER ORDERED that the \$2.0 million dollar cap on future TAP funding is
14 hereby removed effective January 1, 2016.

15 IT IS FURTHER ORDERED that the Company will continue to provide TAP credits to
16 both new and existing customers who are determined by DES to be eligible.

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IT IS FURTHER ORDERED that all other Settlement Agreement provisions adopted in Decision No. 68604 relating to the TAP, to the extent not modified by previous Commission Orders, shall remain in effect.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, Jodi Jerich, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this _____ day of _____, 2015.

JODI JERICH
EXECUTIVE DIRECTOR

DISSENT: _____

DISSENT: _____

TMB:BNC:nr\MAS

SERVICE LIST FOR: Qwest Corporation dba CenturyLink QC
DOCKET NOS. T-01051B-15-0383

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